

**PINAL COUNTY ADMINISTRATIVE SERVICES
DIVISION OF LONG TERM CARE**

**Financial Statements
And
Supplementary Information**

Year Ended September 30, 2011

CONTENTS

	<u>Page</u>
Independent Auditors' Report.....	1-2
Financial Statements	
Statement of Net Assets	3
Statement of Revenues, Expenses and Changes in Net Assets	4-6
Statement of Cash Flows	7-8
Notes to Financial Statements	9-15
Supplementary Information	
Report #1- Statement of Financial Position, Net Assets or Balance Sheets	16
Report #2- Statement of Activities/Income Statements	17-22
Report #3- Investments and Balance Sheet "Other Account" Details	23
Report #4- Income Statement "Other Account" Details	24
Report #5- Claims Lag Report for Prospective Period Only.....	25
Report #6- Utilization Data Report by County.....	26-28
Report #7- FQHC/RHC Reasonable Cost Reimbursement	29-30
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	31-32



Certified
Public
Accountants

4001 North 3rd Street
Suite 275
Phoenix, AZ 85012-2086

Tel: (602) 264-3077
Fax: (602) 265-6241

Independent Auditors' Report

To the Board of Supervisors of
Pinal County, Arizona

We have audited the accompanying financial statements of Pinal County Administrative Services, Division of Long Term Care (the Division, a proprietary fund of Pinal County, Arizona) as of and for the year ended September 30, 2011, as listed in the table of contents. These financial statements are the responsibility of the Division's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only Pinal County Administrative Services, Division of Long Term Care and do not purport to, and do not, present fairly the financial position of Pinal County, Arizona, as of September 30, 2011, and the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Pinal County Administrative Services, Division of Long Term Care as of September 30, 2011, and the changes in financial position and cash flows, thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

Our audit was made for the purpose of forming an opinion on the basic financial statements of the Division taken as a whole. The accompanying supplemental information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Page Two

In accordance with *Government Auditing Standards*, we have also issued our report dated, January 26, 2012, on our consideration of the Division's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Aster & Chapman P.C.

January 26, 2012

Pinal County Administrative Services
Division of Long Term Care

STATEMENT OF NET ASSETS
ENTERPRISE FUND

September 30, 2011

ASSETS

Current assets:

Cash and cash equivalents	\$ 5,443,937
Receivable from AHCCCS	1,545,795
Prepaid expenses	<u>50,000</u>
Total current assets	7,039,732

Noncurrent assets:

Capital assets:

Buildings, improvements and equipment	6,120,980
Less accumulated depreciation	<u>(2,027,051)</u>

Capital assets, net	4,093,929
---------------------	-----------

Restricted cash and cash equivalents	<u>1,156,000</u>
--------------------------------------	------------------

Total noncurrent assets	<u>5,249,929</u>
-------------------------	------------------

Total assets	<u>12,289,661</u>
--------------	-------------------

LIABILITIES AND NET ASSETS

Current liabilities:

Claims payable	5,955,080
Accounts payable and accrued liabilities	<u>320,946</u>

Total liabilities	<u>6,276,026</u>
-------------------	------------------

Net Assets:

Invested in capital assets	4,093,929
Restricted for health care	3,006,000
Unrestricted	<u>(1,086,294)</u>

Total net assets	<u>\$ 6,013,635</u>
------------------	---------------------

The accompanying notes are an integral part of this statement.

Pinal County Administrative Services
Division of Long Term Care

STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS
ENTERPRISE FUND

Year Ended September 30, 2011

Operating revenues:	
AHCCCS revenue	\$ 59,603,028
Reinsurance	3,171,460
Other	<u>17,231</u>
Total operating revenues	<u>62,791,719</u>
Operating expenses:	
Institutional care:	
Nursing care - Level I	5,409,845
Nursing care - Level II	4,847,148
Nursing care - Level III	3,828,752
Specialty care	5,563,803
PPC institutional care	<u>298,002</u>
Total institutional care	19,947,550
Home and Community Based Services (HCBS):	
Home health - nurse	699,325
Personal care	156,653
Homemaker	375,533
Home delivered meals	116,321
Respite	153,406
Attendant care	17,911,215
Adult care home	2,559,046
Adult day health	97,204
Adult foster care	100
Hospice	25,670
Assisted living arrangement	1,385,344
Environmental modifications	<u>155,755</u>
Total home and community based services (HCBS)	23,635,572

(Continued)

The accompanying notes are an integral part of this statement.

Pinal County Administrative Services
Division of Long Term Care

STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS
(continued)

Year Ended September 30, 2011

Acute Care:	
Inpatient services	\$ 2,331,727
Primary care physician services	373,080
Referral physician services	1,079,839
Emergency services	397,191
Outpatient facility	551,490
Prescription drugs	1,685,151
Laboratory/radiology	464,979
Durable medical equipment	859,579
Dental	23,439
Transportation (emergency \$393,687)	1,755,881
Therapies	190,710
Outpatient behavioral health	550,824
Infusion therapy	124,669
Dialysis	249,401
PPC acute	<u>90,015</u>
Total acute care	10,727,975
Case Management:	
Case management payroll and payroll related	2,807,850
Case management, other	<u>41,715</u>
Total case management	<u>2,849,565</u>
Total medical costs	<u>57,160,662</u>

(Continued)

The accompanying notes are an integral part of this statement.

Pinal County Administrative Services
Division of Long Term Care

STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS
(continued)

Year Ended September 30, 2011

Administration expenses:	
Compensation and benefits	\$ 2,138,161
Data processing	163,269
County management services	300,000
Professional fees	157,469
Insurance	29,154
Occupancy	23,328
Telecommunications	35,782
Depreciation	375,531
Office expenses	111,968
Printing and publishing	14,754
Travel	14,142
Other expenses	<u>12,423</u>
Total administration expenses	<u>3,375,981</u>
 Total operating expenses	 <u>60,536,643</u>
 Operating income	 2,255,076
Nonoperating revenues (expenses):	
Interest income	73,951
Interest expense	(97,154)
HCBS supplemental payments	(226,390)
SNP program	(104,541)
Premium tax	<u>(1,251,431)</u>
Total nonoperating revenues (expenses), net	<u>(1,605,565)</u>
 Net income before transfers	 649,511
 Transfers out	 <u>(2,177,217)</u>
 Decrease in net assets	 (1,527,706)
 Net assets, October 1, 2010	 <u>7,541,341</u>
 Net assets, September 30, 2011	 <u>\$ 6,013,635</u>

The accompanying notes are an integral part of this statement.

Pinal County Administrative Services
Division of Long Term Care

STATEMENT OF CASH FLOWS
ENTERPRISE FUND

Year Ended September 30, 2011

Cash flows from operating activities:	
Cash received from:	
Contractors, patients, and other payors	\$ 62,576,582
Miscellaneous operations	17,231
Cash payments to:	
Providers for health care services	(53,893,014)
Supplies for good and services	(860,407)
Employees for services	<u>(5,050,020)</u>
Net cash provided by operating activities	2,790,372
Cash flows from noncapital financing activities:	
Premium tax payments	(1,251,431)
Cash transfers to the County	<u>(2,177,217)</u>
Net cash used for noncapital financing activities	(3,428,648)
Cash flows from capital and related financing activities:	
Payments on long-term debt	(2,347,400)
Interest paid on long-term debt	(122,070)
Loss on disposal of capital assets	7,636
Purchase of capital assets	<u>(14,495)</u>
Net cash used for capital and related financing activities	(2,476,329)
Cash flows from investing activities:	
Interest received on cash and cash equivalents	<u>73,951</u>
Net cash provided by investing activities	<u>73,951</u>
Net decrease in cash and cash equivalents	(3,040,654)
Cash and cash equivalents at October 1, 2010	<u>9,640,591</u>
Cash and cash equivalents at September 30, 2011	<u>\$ 6,599,937</u>

(Continued)

The accompanying notes are an integral part of this statement.

Pinal County Administrative Services
Division of Long Term Care

STATEMENT OF CASH FLOWS
(Continued)

Year Ended September 30, 2011

Reconciliation of operating income to net cash used for operating activities:

Operating income	\$ 2,255,076
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	375,531
HCBS supplemental payments	(226,390)
SNP program non-AHCCCS wages	(104,541)
Changes in assets and liabilities:	
Net receivables from AHCCCS	(197,906)
Prepaid expenses	65,674
Accounts payable and accrued liabilities	(63,260)
Claims payables	<u>686,188</u>
Net cash provided by operating activities	<u>\$ 2,790,372</u>

Cash and cash equivalents at September 30, 2011, consist of:

Unrestricted cash and cash equivalents	5,443,937
Restricted cash and cash equivalents	<u>1,156,000</u>
Total	<u>\$ 6,599,937</u>

Supplemental disclosure:

Interest paid	\$ 122,070
---------------	------------

Supplemental disclosure of noncash noncapital financing activities:

Transfer to Pinal County	\$ (2,177,217)
--------------------------	----------------

The accompanying notes are an integral part of this statement.

Pinal County Administrative Services
Division of Long Term Care

NOTES TO FINANCIAL STATEMENTS

September 30, 2011

NOTE 1 – GENERAL DIVISION DESCRIPTION

The financial statements presented are for Pinal County Administrative Services, Division of Long Term Care (the Division) (formed in 1990), which is a department of Pinal County, Arizona. The Division provides hospitalization, medical care, managed institutional care, and home and community based long term care for physically disabled and elderly persons. The Division's programs are funded by the Arizona Health Care Cost Containment System (AHCCCS). AHCCCS funds include federal, state and county monies.

The Division is a provider group providing health services to individuals qualifying for care under Arizona Long Term Care System (ALTCS), mainly in Pinal County and Gila County, Arizona. ALTCS pays the Division monthly, based on a contracted capitated rate and on the number of ALTCS members enrolled in the Division. The Division then subcontracts with medical service providers to provide the services required by ALTCS. The Division itself does not provide medical services other than case management. The Division contracts with primary care physicians and other acute care providers to render acute care services. The primary care physicians are capitated monthly to provide certain medical services. Other providers are compensated at negotiated rates, AHCCCS rates or other rates.

For financial reporting purposes, the Division is accounted for as an enterprise fund of Pinal County, Arizona, under the direction of administrators appointed by the Pinal County Board of Supervisors. Ultimate fiscal responsibility for the Division remains with the County. The Division accounts for funds received from AHCCCS under ALTCS. ALTCS provides hospitalization and medical care services, as well as managed institutional and home and community based long term care services to eligible enrollees of the program. No other County operations are included in these financial statements.

NOTE 2 – TERMINATION OF AHCCCS CONTRACT

The Division received notice in May 2011 that its AHCCCS contract that expired in September 2011, would not be renewed. The contract provided 99% of the Division's revenue during the year ended June 30, 2011. Therefore, starting in October 2011, the Division no longer is earning capitation revenue and has limited its operations to processing and paying claims. The Division plans to pay authorized claims through September 30, 2012 as required by the terms of the expiring contract.

Pinal County Administrative Services
Division of Long Term Care

NOTES TO FINANCIAL STATEMENTS

September 30, 2011

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Fund

A Fund is described as an independent fiscal and accounting entity with a self-balancing set of accounts used to record assets, related liabilities, reserves and equities which are segregated for the purpose of carrying on activities of the reporting entity.

Proprietary (Enterprise) Fund

This fund type is used to account for operations that are financed and operated in a manner similar to private business enterprises, in which the intent is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

Basis of Accounting

The financial statements were prepared using the accrual basis of accounting, following generally accepted accounting principles (GAAP) as they apply to enterprise funds of state and local governments, and following the reporting guidelines as established by AHCCCS.

Pronouncements of GASB and FASB

Government Accounting Standards Board (GASB) Statement No. 20 states that Financial Accounting Standards Board (FASB) and its predecessor body pronouncements issued before November 30, 1989, continue to be applicable to Enterprise Funds unless they conflict with or contradict GASB guidance.

Enterprise Funds may take either of the following approaches to FASB guidance issued subsequent to November 30, 1989.

1. An entity may elect to continue to follow FASB guidance that does not conflict with or contradict GASB guidance. If this election is made, it must be followed consistently. It would not be appropriate to follow some FASB pronouncements issued subsequent to the cutoff date, but not others.

Pinal County Administrative Services
Division of Long Term Care

NOTES TO FINANCIAL STATEMENTS

September 30, 2011

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

2. An entity may elect not to subject itself to FASB guidance issued subsequent to the cutoff date. In that case, even FASB amendments of guidance issued prior to the cutoff date would not be applicable to proprietary operations.

The Division has elected to subject itself to FASB guidance issued subsequent to November 30, 1989.

Use of Estimates

In preparing financial statements in conformity with generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Division considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. All of the Division's monies are under the direct supervision of the Pinal County Treasurer's Office.

Revenue Recognition

a. Capitation Revenue

The Division receives capitation payments under the AHCCCS contract based on member months equivalents. At the beginning of each month, the Division receives capitation based on the number of members enrolled for that month. As members are added or removed from enrollment, capitation is adjusted for the remaining portion of the month. At any given time, capitation may be due to or due from AHCCCS. Capitation revenue is recognized in the month that members are entitled to long-term and acute health care services. The Division is required to provide those services to its members, regardless of the cost of care provided.

Pinal County Administrative Services
Division of Long Term Care

NOTES TO FINANCIAL STATEMENTS

September 30, 2011

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

b. Reinsurance Revenue

The Division is entitled to receive reinsurance revenue from AHCCCS for a percentage of costs incurred for medical care in excess of a stated deductible per member per contract year.

c. Share of Cost Adjustment

Per the contract with AHCCCS, members with income in excess of standards set by AHCCCS are to pay a portion of their covered expenses. This is known as a Share of Cost (SOC). A portion of the Division's capitation is based on assumed SOC per member per month. If actual assigned SOC is less than assumed SOC, AHCCCS has agreed to reimburse the Division. If actual assigned SOC is greater than assumed SOC, the Division has agreed to reimburse AHCCCS. The SOC adjustment is based on current assigned SOC information from AHCCCS.

Capital Assets

Capital assets in excess of \$5,000 are capitalized at cost and depreciated using the straight-line method over the estimated useful lives of the assets ranging from 3-30 years.

Restricted Cash and Cash Equivalents

AHCCCS requires the Division to maintain a performance bond or its equivalent. Restricted cash and cash equivalents consist of monies held in lieu of a performance bond.

Income Taxes

The Plan is a division of a governmental entity, and as such does not pay income taxes. Therefore, no provision for income taxes has been made in these statements.

Medical Expenses

All medical expenses are reported net of Medicare payments.

Pinal County Administrative Services
Division of Long Term Care

NOTES TO FINANCIAL STATEMENTS

September 30, 2011

NOTE 4 – RECEIVABLE FROM AHCCCS

In addition to the monthly capitation payments from AHCCCS, the Division receives reimbursements of medical and medically related expenses for certain types of claims. AHCCCS partially reimburses the Division for patients whose care expenses exceed a \$20,000 annual limit. At September 30, 2011, the Division has a receivable from AHCCCS for reinsurance of \$985,523.

The contracted capitation rate from AHCCCS includes estimates for home and community based services (HCBS) and share of costs components. Thus, after year end, these components are adjusted to an assigned HCBS percentage and share of costs, based on actual experience during the year, and the adjustments are made to capitation received during the year. At September 30, 2011, these adjustments resulted in amounts due from AHCCCS of \$123,761. In addition, \$426,511 in SOC adjustments were due to the Division at September 30, 2011.

NOTE 5 – CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2011, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Building and improvements	\$ 4,699,042			\$ 4,699,042
Furniture and equipment	1,349,536	\$ 14,495		1,364,031
Vehicles	91,848		\$ (33,941)	57,907
Less accumulated depreciation	<u>(1,677,825)</u>	<u>(375,531)</u>	<u>26,305</u>	<u>(2,027,051)</u>
Total capital assets, net	<u>\$ 4,462,601</u>	<u>\$ (361,036)</u>	<u>\$ (7,636)</u>	<u>\$ 4,093,929</u>

NOTE 6 – CLAIMS PAYABLE

The Division utilizes a computerized authorization system to aid in the determination of claims incurred but not reported and to prevent unauthorized services from being rendered. In overview, providers are required to obtain authorization before services are rendered for all services except pharmacy. The authorizations are recorded and matched to claims as they are received. Thus, the amount of claims incurred but not reported can be determined by examining authorizations that have not been matched to claims. By including the amount of claims received but not paid, the total claims payable can be determined, in accordance with the AHCCCS Reporting Guide for Acute Health Care Contractors, Revised October 1, 2010, § 5.01. As of September 30, 2011, management determined claims payable totaled \$5,955,080 using this system.

Pinal County Administrative Services
Division of Long Term Care

NOTES TO FINANCIAL STATEMENTS

September 30, 2011

NOTE 7 – LONG-TERM DEBT

During the year ended September 30, 2008, the Division and The Greater Arizona Development Authority executed a loan agreement which provided \$2,800,000 in funding for the construction of a building. The interest rate is 4.35%. Interest and principal payments began January 1, 2009 and July 1, 2009 respectively, and the loan matures on July 1, 2018. During the year ended September 30, 2011, the outstanding principal and interest related to this loan was assumed in full, by the debt service fund of Pinal County, Arizona. In addition, the Division provided \$2,779,477 to the County during the year ended September 30, 2011 to fund future required payments for the life of the loan.

NOTE 8 – RESTRICTED NET ASSETS

Per the contract with AHCCCS, the Division is required to retain in equity an amount equal to \$2,000 per enrolled member at year end. As of September 30, 2011 the Division had an equity-to-member ratio of \$4,001 per member. Net assets have been reserved for \$3,006,000, or \$2,000 per member. The balance of any equity may be distributed after the issuance of the audited financial statements, with AHCCCS's permission. During the year ended September 30, 2011, the Division transferred \$2,177,217 to the County.

NOTE 9 – RETIREMENT PLAN

Plan Description

The Division contributes through Pinal County to the Arizona State Retirement System (ASRS), which administers a cost-sharing multiple-employer defined benefit pension plan that covers general employees of the County. The ASRS is governed by the Arizona State Retirement System Board according to the provisions of A.R.S. Title 38, Chapter 5, Article 2. Benefits are established by state statute and generally provide retirement, death, and long-term disability, survivor, and health insurance premium benefits. The ASRS issues a publicly available financial report that includes its financial statements and required supplementary information. A report may be obtained by writing or calling:

ASRS
3300 N. Central Avenue
P.O. Box 33910
Phoenix, Arizona 85067-3910
(602) 240-2000 or (800) 621-3778

Pinal County Administrative Services
Division of Long Term Care

NOTES TO FINANCIAL STATEMENTS

September 30, 2011

NOTE 9 – RETIREMENT PLAN - CONTINUED

Funding Policy

The Arizona State Legislature establishes and may amend active plan members' and the Plan's contribution rates.

For the year ended June 30, 2011, active ASRS members and the Division were each required by statute to contribute at the actuarially determined rate of 9.85 percent (9.6 percent retirement and 0.25 percent long term disability) of the members' annual covered payroll. The Plan's contributions to ASRS for the year ended September 30, 2011, 2010, and 2009, were \$384,801, \$377,411, and \$378,405 respectively, which were equal to the required contributions for the year.

NOTE 10 – RELATED PARTY TRANSACTIONS

Due to lack of providers in Pinal County, the Division contracts for services with other County operations. These operations for medically-related services include the Pinal County Horizon Home Care. For the year ended September 30, 2011, the Division paid these operations \$7,123,177 for services and has claims payable to them of \$428,938.

In addition to medical and medically-related services, the Division contracts with Pinal County for certain other services. During the year, the Division paid the County \$300,000 for legal, finance, and other administrative services. In addition, the Division transferred \$1,872,077 to the County's general fund and \$305,140 to fund the County's SMILE program. The Division's employees are employees of the County and are subject to all rules and regulations of Pinal County. The Division's liability insurance is provided as part of the County's coverage.

NOTE 11 – SUBSEQUENT EVENTS

The Division has evaluated subsequent events through January 26, 2012, the date which the financial statements were available to be issued, and has concluded that no events have occurred since the year ended September 30, 2011 that would require an adjustment to or disclosure in the financial statements.